

City of Detroit


CITY COUNCIL

IRVIN CORLEY, JR.
FISCAL ANALYST
(313) 224-1076

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 218
Detroit, Michigan 48226
FAX: (313) 224-2783
E-Mail: cc-fiscal@ci.detroit.mi.us

ANNE MARIE LANGAN
ASSISTANT FISCAL ANALYST
(313) 224-1078

TO: Cathy Square, General Manager
Greater Detroit Resource Recover Authority

FROM: Irvin Corley, Jr., Fiscal Analysis Director 

DATE: April 28, 2005

RE: 2005-06 Budget Analysis

Attached is our budget analysis regarding your department's budget for the upcoming 2005-06 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:cyb

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Sean Werdlow, Chief Financial Officer
Roger Short, Budget Department Director
Ron Chenault, Budget Department Team Leader
Tina Tolliver, Budget Department Team Leader
Kandia Milton, Mayor's Office

Greater Detroit Resource Recovery Authority

FY 2005-06 Budget Analysis by the Fiscal Analysis Division

The City of Detroit/Resource Recovery Agreement specifically mandates that “the City shall budget, appropriate and requisition City funds for payment of the Tipping Fee . . . “. It further states that “ the City hereby recognizes and affirms that its obligations to pay Tipping Fees . . . are full faith and credit obligation of the City . . . The City expressly and irrevocably pledges its full faith and credit for the prompt and timely payment of the Tipping Fees, and shall each year, commencing with the Fiscal Year 1985-86, appropriate from its General Fund as a first budget obligation sufficient monies to pay such Tipping Fees.” (emphasis added).

As a result of the language included in this agreement, it becomes a primary budget obligation to provide for the DPW Tipping Fee. It can be argued that this obligation supersedes the City’s obligation to provide police, fire, sanitation and other generally recognized City services. It appears that the only way to avoid appropriating the Tipping Fee from the General Fund is if the City is actually in a default position resulting from bankruptcy, and the fee can then be assigned directly against the Detroit property owner. This would be done by assessing directly against the residential users of the Authority’s Resource Recovery facility based on a flat annual fee and against commercial users of the facility based upon individual contracts.

The Tipping Fee amount is calculated by taking the sum of the operating fee, the authority’s administrative expenses, plus debt service, less the authority’s revenues.

The DPW budget contains funds for the Tipping Fees in a single appropriation:

<u>Appropriation</u>	<u>2003-04 Budget</u>	<u>2004-05 Recommendation</u>	<u>Change</u>
0040 – Refuse Disposal			
Tipping Fee	\$ 75,829,000	\$ 80,343,068	\$ 4,514,068

The FY 2005-06 proposed Tipping Fee represents an increase of 5.95%. The Tipping Fee increase is the net result of operating expenses, including debt service, increasing by 4.5% and estimated revenues decreasing by 2.24%.

The GDRRA bonds were refinanced in March 1996. As a result of the refinancing, the City will save approximately \$184 million over the remaining life of the GDRRA bonds.

Issues and Questions

1. GDRRA has reported an operating deficit in the past of anywhere from \$14 to \$22 million. The detail sheet provided by GDRRA listing the 2005-06 operating budget request includes a line for "One half of the prior years deficits equal to \$10.0 million dollars." If this amount were included the tipping fee would increase by the \$10.0 million to \$90.3 million. What is the accumulated deficit from operations at the resource recovery plant? How and when will the deficit be addressed?
2. Assuming that the accumulated deficit is addressed in some manner, is the proposed budget realistic? What operational efficiencies are in place to bring operations in line with revenues even with the \$4.5 million increase? Or is there a built in deficit within the budget?
3. Within the past month GDRRA has provided one page out of their financial statements for June 30, 2006 that shows the debt service on Resource Recovery Bonds Tax-Exempt and Economic Development (Air Pollution Control) Revenue Bonds Taxable and Tax Exempt, thru June 30, 2009. The total of the debt service payments are \$64,675,949, but the detail budget request includes \$67,409,392, or \$2,733,443 greater than the your published financial statements. Please explain the difference.
4. The Non-Departmental Budget includes and an appropriation and revenue in an equal amount for Supplemental Fee (GDRRA). Our understanding of this account, on the advice of bond counsel, this should represent the flowing of GDRRA debt service payments through the City's accounts because this represents a full faith can credit obligation of the City. If the above is incorrect, please clarify. If the above is correct, why doesn't the Non-Departmental appropriation and revenue equal the correct debt service amount?
5. Was your detail budget submission updated to reflect the 10% employee salary reductions? New employee pension and benefit factors, and a reduction of 10% from all of your contractors? Since the City of Detroit pays the net cost of operations of the facility in the Tipping Fee, all City of Detroit reduction and savings plans should also be included in GDRRA operations.

IC:JGP

Attachment

**Greater Detroit Resource Recovery Authority
Operating Budget Request**

	2004-05 <u>Recommended</u>	2005-06 <u>Recommended</u>	<u>Inc/(Dec)</u>	
Expenses:				
Net Debt Service	\$48,730,000	\$50,417,266	\$1,687,266	
Net APC Debt Service	16,648,000	16,992,126	344,126	
Labor and Plant Maintenance	18,046,000	18,678,938	632,938	
Contractual Services/Other Costs	6,677,000	6,907,724	230,724	
Lime Addition	966,000	985,007	19,007	
Purchased Electricity	209,000	221,531	12,531	
Other Fuels	435,000	721,286	286,286	
Water	640,000	845,421	205,421	
Sewerage	1,077,000	1,207,625	130,625	
Electrical Inter-tie Maintenance	155,000	156,357	1,357	
Steam line Maintenance	624,000	636,540	12,540	
Insurance	2,185,000	2,829,587	644,587	
Supplemental Tipping Fee	1,164,000	1,163,507	(493)	
Hauling and Disposal Costs	15,416,000	14,755,962	(660,038)	
Authority Administrative	2,544,000	2,598,021	54,021	
Escrow Fee (Authority)	1,113,000	1,113,204	204	
TOTAL EXPENSES	\$116,629,000	\$120,230,102	5,252,600	4.50%
Revenues:				
Steam Sales	\$27,753,000	\$28,725,781	972,781	
Electricity Sales	12,286,000	12,329,486	43,486	
Operators Energy Revenue	(5,400,000)	(6,038,290)	(638,290)	
Investment Earnings	-	-	-	
Private Hauler Fees	5,894,000	4,870,057	(1,023,943)	
Recovered Material	267,000	-	(267,000)	
TOTAL REVENUES	\$40,800,000	\$39,887,034	(912,966)	-2.24%
TIPPING FEE	\$75,829,000	\$80,343,068	4,514,068	5.95%